

Taxes Questions Raised Due To Deployment Extension

Family members and Soldiers have raised tax questions based on the 172nd's extension. Depending on the length of redeployment, because of the Combat Zone Tax Exclusion (CZTE), a Soldier may have zero taxable income for 2006. Thus, unless the Soldier's spouse earned income by working stateside, most families will have zero taxable income for 2006. This fact raises several tax related questions:

(1). *Will our family still qualify for the Earned Income Tax Credit (EITC) even though we will report no taxable income for 2006?* Yes. Normally to qualify for the EITC, income subject to taxes must be earned during a tax year. If no taxable income is reported to the IRS, then no EITC will be refunded. However, in 2004, Congress amended the law to allow Soldiers to elect tax free combat pay as income for EITC purposes. Thus, generally a family that normally would qualify for EITC still qualifies for EITC even if the entire year's income is nontaxable due to military service.

(2) *Will our family still qualify for the Child Tax Credit (CTC) even though we will report no taxable income for 2006?* Yes. Similar to the EITC, normally income subject to taxes must be earned during a tax year to qualify for the CTC. Again, in 2004, Congress also fixed this problem by allowing Soldiers to elect tax free combat pay as income for CTC purposes. Thus, generally a family that normally would qualify for the CTC still qualifies for the CTC even if the entire year's income is nontaxable due to military service.

(3) *Will I still be able to contribute to an Individual Retirement Account (IRA) even if our family will report no taxable income for 2006?* Yes. Prior to a law change in April of this year, an individual could only contribute the lesser of their taxable income or \$4000. Thus, if a Soldier's entire income was not subject to taxes due to military service in a combat zone, he or she could not contribute to an IRA. However, due to this year's law change, nontaxable combat pay will be considered income for IRA contribution purposes. Thus, a Soldier will be able to contribute the maximum amount to an IRA.

(4). *We delayed paying our taxes this April because my spouse was in Iraq. We were planning to do our taxes in August. Do we have to file for an extension with the IRS now that we won't be able to do our taxes until my spouse returns?* No. Taxes for deployed service members are due 180 days after returning from deployment. No extension needs to be filed

This is a broad overview of tax law in this area and does not necessarily cover all the details of everyone's particular tax situation. The Legal Assistance office at Fort Richardson 384-0371 or Fort Wainwright 353-6534 can be reached if there are further questions on this topic.